LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7137 | **NOTE PREPARED:** Jan 12, 2015
BILL NUMBER: HB 1604 | **BILL AMENDED:**

SUBJECT: Venture Capital Tax Credits.

FIRST AUTHOR: Rep. Smaltz | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State
DEDICATED
FEDERAL

Summary of Legislation: This bill increases the maximum amount of tax credits available under the Venture Capital Investment (VCI) Tax Credit for the provision of qualified investment capital to a particular qualified Indiana business to be the lesser of: (1) the total amount of qualified investment capital provided to the qualified business multiplied by 25%; or (2) $1.5 M; for calendar years after 2015. The bill increases the amount of credit a taxpayer is entitled to equal 25% multiplied by the amount of the qualified investment capital.

It removes a provision that prohibits a taxpayer from being entitled to a credit for providing qualified investment capital to a qualified Indiana business after December 31, 2016.

It increases the total amount of tax credits that may be approved by the Indiana Economic Development Corporation (IEDC) for qualified investment capital from $12.5 M to $15.0 M.

It also provides that the credit is assignable.

Effective Date: July 1, 2015.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur additional expenses to revise forms, update instructions, and modify software applications. They should be able to implement the provisions within the bill with their current level of staffing and resources.

Indiana Economic Development Corporation (IEDC): The bill's requirements are within the agency's routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

Explanation of State Revenues: *Summary* - This bill changes four attributes of the VCI Tax Credit. All the changes will likely result in additional credits claimed and a corresponding reduction in state General Fund revenue beginning in FY 2016. The revenue impact was estimated based on the credits certified by the IEDC, the credits claimed by taxpayers, and academic research relating to investment behavior. The estimated state General Fund revenue loss associated with this bill ranges from $5.3 M to 8.1 M in FY 2016, $1.6 M to $2.7 M in FY 2017 and $6.0 M to $9.4 M each fiscal year thereafter.

Additional Information - Under current statute, the VCI Tax Credit is equal to 20% of the annual venture capital investment in a qualified Indiana business up to the $1.0 M per taxpayer maximum. The annual maximum for total credits approved by the IEDC is $12.5 M. A business must meet specific criteria to be certified by the IEDC to receive venture capital investment that is eligible for the tax credit. In order to obtain credit for investment in a qualified Indiana business, a taxpayer must have an investment plan certified by the IEDC and then provide the investment capital to the qualified Indiana business within two years.

The tax credit is nonrefundable, but unused credit could be carried forward for up to five consecutive years. The tax credit may not be granted after December 31, 2016, but unused tax credits attributable to an investment occurring before January 1, 2017, could be carried forward to future years. The credit may be claimed against the Individual Adjusted Gross Income (AGI) Tax, Corporate AGI Tax, Financial Institutions Tax, Insurance Premium Tax, and Sales and Use Tax.

The bill makes the following changes to the VCI tax credit:

Existing	Proposed	Effective Beginning
The credit is not assignable.	The taxpayer may assign any part of the credit to which they are entitled.	July 1, 2015
The IEDC may approve up to $12.5 M in credits per calendar year.	The IEDC may approve up to $15.0 M in credits per calendar year.	July 1, 2015
The credit for investment in a qualified business is the lesser of 20% of the capital provided to the business during the calendar year or $1 M.	The credit for investment in a qualified business is the lesser of 25% of the capital provided to the business during the calendar year or $1.5 M.	January 1, 2016
Credits may not be awarded for investments made after 2016.	The credit does not have a sunset provision.	January 1, 2017

Beginning on July 1, 2015, taxpayers with no tax liability will be able to assign the credit to those taxpayers who do have a tax liability to offset. The revenue loss in FY 2016 assumes 77% of the unused credits from 2010-2014 will be claimed on tax year 2015 returns. The impact in FY 2017 and thereafter incorporates the estimated unclaimed credits from the previous year to account for taxpayers continuing to assign credits.

The bill also increases the maximum amount of VCI credits the IEDC can approve per calendar year from $12.5 M to $15.0 M beginning in FY 2016. This provision increases the potential revenue loss from this program if the IEDC authorizes additional credits.

The bill increases the credit for investments made after December 31, 2015. The credit equals the lesser of 25% of the capital provided to a qualified business during the calendar year or $1.5 M. Increasing the credit percentage reduces the price of investing and should induce additional qualifying investments. Estimates of the induced investments are a component of the revenue estimates beginning in FY 2017.

The bill removes the credit's sunset provision, so the IEDC will be allowed to award credits for qualifying investments made after 2016. The revenue loss for continuing to award VCI credits was estimated using past credit claims. The estimate's range is based on different growth assumptions. The revenue impact for the years after FY 2017 also include adjustments for the other provisions.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Indiana Economic Development Corporation.

Local Agencies Affected:

Information Sources: LSA Income Tax Database; Eric Shields - Indiana Economic Development Corporation, 234-3997. Chirinko, Robert S., Fazzari, Steven M., and Meyer, Andrew P., *That Elusive Elasticity: A Long-Panel Approach to Estimating the Price Sensitivity of Business Capital*, 2001; Coulibaly, Brahima and Millar, Jonathan, *The 'Elusive' Capital-User Cost elasticity Revisited*, May 15, 2009.

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